

## Message Text

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ACTION EUR-12

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INFO AMEMBASSY BONN  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY THE HAGUE  
USMISSION OECD PARIS

UNCLAS BRUSSELS 01471

E.O. 11652:N/A  
TAGS:EFIN,ECON,ELAB,BE  
SUBJECT: THE BELGIAN BUDGET DEFICIT: HIGHER TAXES AND THE  
"EGMONT PLAN"

REF: 76 BRUSSELS 8512,BRUSSELS 967,BRUSSELS 1175

1.SUMMARY.THE TINDEMANS GOVERNMENT HAS ANNOUNCED  
REVISED BUDGET FIGURES FOR 1977.CURRENT SPENDING IS UP  
TO BF 846.1 BILLION,ESTIMATED RECEIPTS DOWN TO 817.5 BILLION,  
LEAVING A CURRENT DEFICIT OF 28.6 BILLION.INCLUDING THE  
SEPARATE INVESTMENT BUDGET,THIS IMPLIES TOTAL OFFICIAL  
FINANCING REQUIREMENTS THIS YEAR OF AROUND BF 200 BILLION.  
THE PROJECTED CURRENT DEFICIT IS NOW HALF OF FORMER  
ESTIMATES, AND THAT OF 1976, BUT ONLY THROUGH IMPOSITION OF  
SHARPLY INCREASED INDIRECT TAXES ON A WIDE VARIETY OF PRODUCTS  
AND SERVICES; VIRTUALLY NO SPENDING CUTS ARE PROPOSED.  
THE HIGHER TAXES WILL HIT "LUXURY" ITEMS,BUT INCLUDE ALSO CONSUMER  
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STAPLES SUCH AS GASOLINE,CIGARETTES,BEER AND MOVIES.  
INVESTMENT SPENDING REMAINS AT PREVIOUS LEVELS AND,IN FACT, WILL  
BE ACCELERATED TO COUNTER UNEMPLOYMENT.OTHERWISE, THE  
"EGMONT PLAN" CONTAINS A NUMBER OF ADMINISTRATIVE CHANGES TO AID  
BUSINESS AND LABOR OVER THE LONGER TERM AND REDUCE WELFARE  
CHEATING.

2.AFTER A WEEKEND-LONG MEETING IN THE GOVERNMENT'S PALAIS D'EGMONT IN DOWNTOWN BRUSSELS, PRIME MINISTER TINDEMANS AND HIS CABINET MADE A SUNDAY AFTERNOON ANNOUNCEMENT FEBRUARY 13 ON REVISED BUDGET FIGURES FOR 1977. FROM A BF 836 BILLION ROUGHLY BALANCED PROGRAM,CURRENT SPENDING FOR THE YEAR HAS NOW BEEN ADJUSTED UPWARDS TO BF 846.1 BILLION AND RECEIPTS DOWNWARD TO BF 817.5 BILLION..THE CURRENT BUDGET IS THUS NOW IN DEFICIT BY BF 28. 6 BILLION; THIS REPRESENTS ROUGHLY HALF THE 1976 CURRENT DEFICIT AS WELL AS THAT GENERALLY PROJECTED FOR 1977 IN RECENT WEEKS BEFORE THE GOVERNMENTAL CONCLAVE. WITH INVESTMENT SPENDING ADDED IN,IT IMPLIES A 1977 INCREASE IN THE TOTAL PUBLIC DEBT OF BF 135 BILLION,WHICH WOULD BE ABOUT THE SAME LEVEL OF BUDGET FINANCING NEEDED IN 1976 (OTHER PARTS OF THE INVESTMENT PROGRAM ARE OUTSIDE THE BUDGET FRAMEWORK, HOWEVER-- TOTAL OFFICIAL FINANCING NEEDS THIS YEAR WOULD APPROACH BF 200 BILLION,AGAIN ABOUT THE SAME AS 1976).

3.THE NEW " EGMONT PLAN" PROPOSES VIRTUALLY NO CUTS IN PUBLIC SPENDINGTHE DEFICIT IS RATHER TO BE NARROWED MAINLY BY INCREASED RECEIPTS IN THE FORM OF SHARP RISES IN VALUE-ADDED TAXATION ON A WIDE VARIETY OF PRODUCTS AND SERVICES.THE ADJUSTED BUDGET IS POSITED ON A REAL GNP GROWTH PROJECTION OF 3.4 PERCENT,PRICE INFLATION OF 8 PERCENT,AND 285,00 FULLY UNEMPLOYED WORKERS FOR THE YEAR (UP FROM 245,000 PREDICTED LAST SUMMER)..

4.THE PROPOSED VAT INCREASES WILL TAKE EFFECT APRIL 1. AMONG THEM IS A RAISE FROM 6 TO 14 PERCENT ON RESTAURANT MEALS, HOTEL AND CAFE PRICES,CIGARETTES AND OTHER TOBACCO PRODUCTS,GASOLINE, UNCLASSIFIED

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ENTERTAINMENT,AND HAIRDRESSERS/BARBERS.THE VAT ON WINE AND CERTAIN OTHER ALCOHOLIC BEVERAGES IS UP FROM 14 TO 25 PERCENT,AND TIRES, MOTORCYCLES,LEATHER GOODS, AND FILM PRODUCTS WILL RISE FROM 18 TO 25 PERCENT.INTERNATIONAL PHONE CALLS GO FROM ZERO TO 14 PERCENT (AND CAVIAR FROM 6 TO 25 PERCENT).THESE MEASURES ARE TO BOOST GOVERNMENT RECEIPTS BY AN ESTIMATED BF 14.2 BILLION.ANOTHER BF 1.4 BILLION IS TO COME FROM CHANGES IN THE METHOD OF IMPOSITION OF EXISTING DIRECT TAXES ON SECURITIES AND PROFESSIONAL EARNINGS.

5.ON THE SPENDING SIDE,THE MAIN INCREASES IN THE CURRENT BUDGET,AS EXPECTED, ARE IN THE AREAS OF ADDITIONAL SUBVENTIONS FOR UNEMPLOYMENT BENEFITS (BF 8.4 BILLION) AND FOR PUBLIC TRANSPORT AND POSTAL SERVICES (BF 2.6 BILLION). (THE OVERALL BF 10 BILLION INCREASE REFERRED TO IN PARAGRAPH 3 APPARENTLY NETS OUT SOME MINOR SPENDING REDUCTIONS.) THE SEPARATE 1977 INVESTMENT PROGRAM,WHICH IS ALWAYS FINANCED BY BOND ISSUES, WILL REMAIN AT ITS TOTAL OF BF 166.6 BILLION.IN ADDITION THE GOVERNMENT WILL TRY TO OBLIGATE OVER HALF THE PROGRAM DURING THE FIRST SIX MONTHS OF THE YEAR,GIVING PARTICULAR ATTENTION TO

LABOR-INTENSIVE PUBLIC WORKS PROJECTS.IT IS ESTIMATED THAT THIS WILL KEEP OVER 100,000 WORKERS ON THE JOB IN THE CONSTRUCTION AND METAL WORKING SECTORS.

6. IN ADDITION TO SUCH MEASURES HAVING AN IMMEDIATE ECONOMIC IMPACT,THE " EGMONT PLAN" ALSO CONTAINS A NUMBER OF ADMINISTRATIVE CHANGES DESIGNED TO ASSIST BUSINESS AND LABOR AND TO REDUCE ABUSE OF SOCIAL WELFARE PROGRAMS.THESE INCLUDE

(A)PROVISIONS FOR GREATER TAX WRITE-OFF OF NEW INVESTMENT THIS YEAR; (B)INCREASED OFFICIAL GUARANTEE AUTHORITY FOR EXPORT FINANCING; (C) EXTENSION OF CURRENT REQUIREMENTS OF AND INDUCEMENTS TO BUSINESS TO HIRE YOUNG TRAINEES; (D)ADJUSTMENT OF CURRENT UNEMPLOYMENT BENEFIT PRACTICES WHICH HAVE SERVED TO SOME DEGREE AS A DISINCENTIVE TO WORKERS TO TAKE LOW-PAYING JOBS OR GO INTO RETIREMENT;(E)INCREASE IN THE OBLIGATORY SCHOOL AGE FROM 14 TO 16 YEARS,A MEASURE TO BEPHASED IN OVER THE NEXT SEVERAL UNCLASSIFIED

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YEARS, (F)STRICTER APPLICATION OF PRICE CONTROLS AS WELL AS MEASURES AGAINST WELFARE CHEATING. IN ADDITION,THE GOVERNMENT ANNOUNCED THE CREATION OF NUMEROUS STUDY COMMISSIONS,SPECIAL ACTION GROUPS,ETC.,TO LOOK AT VARIOUS FISCAL PRACTICES AND RECOMMEND CHANGES OR REFORM.THERE WAS ALSO THE BY-NOW RITUAL DECLARATION OF INTENT TO CRACK DOWN FURTHER ON TEX EVASION,WHICH REMAINS WIDESPREAD IN BELGIUM.THE GOVERNMENT IS CREATING A PERMANENT COMMITTEE TO COMBAT TAX FRAUD,A LONGSTANDING

MAND OF ORGANIZED LABOR.

7. COMMENT ON REACTION AND ECONOMIC EFFECTS OF THESE MEASURES WILL FOLLOW.  
RENNER

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## Message Attributes

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